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State of Tennessee
Department of Financial Institutions

Sixteenth Annual Report
1989

Talmadge B. Gilley, CFE
Commissioner

Produced in cooperation with the
Center of Excellence in Banking
College of Business
East Tennessee State University

We wish to acknowledge the assistance of the staff of the Center of Excellence in Banking, East Tennessee State University, and especially the Center director, Dr. H. Robert Bartell, Jr., CFE, in the preparation of this annual report. A comparison of this report with those of past years will indicate how much the Center's help has contributed to making this report more informative and readable.

Talmadge B. Gilley, CFE
Commissioner
June 1990

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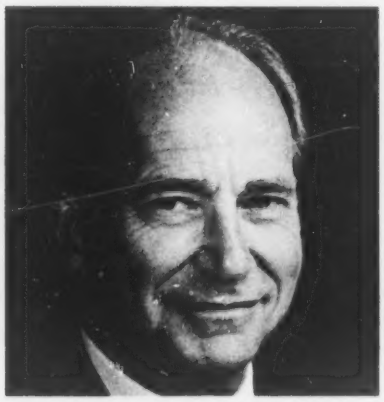
Ned McWherter
Governor

"Many of you in Tennessee know Talmadge Gilley. He started out in the Department of Financial Institutions thirty years ago as a trainee. He is a career employee, and we are delighted that Talmadge agreed to accept and be our Commissioner of Banking."

Remarks by the Honorable Ned McWherter at the
"***Tennessee Banking in the 1990s***" Conference

sponsored by the
Center of Excellence in Banking
East Tennessee State University

in cooperation with
The Department of Financial Institutions



Commissioner's Message

Talmadge B. Gilley, CFE
Commissioner
Department of Financial Institutions

During 1989, the Department of Financial Institutions was under the able leadership of Commissioner Jeff H. Dyer. Rightfully this message should be his, but since he resigned to return to the banking business in January 1990, it falls upon me as his successor to make this annual report.

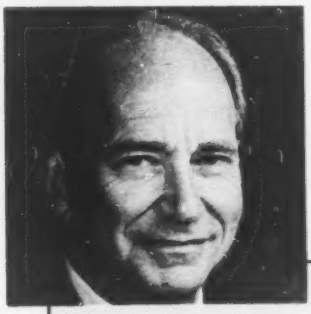
I am honored that Governor McWherter appointed me to succeed Jeff Dyer as Commissioner. I began my career with the department as an examiner trainee in 1959, so I will be completing my 31st year as a department employee in 1990. Naturally, I have seen a lot of progress and change over those years, not only in the department but in the financial institutions we regulate. I am proud of the performance of our staff in serving the public interest. I am also encouraged that Tennessee state-chartered banking and credit union institutions are doing so well. Their recent performance is described in some detail in this report.

I believe strongly in the dual state/federal chartering system which characterizes financial institution regulation in the United States. The continued strength and vitality of the dual system requires that state regulatory agencies, such as ours, be adequately funded and managed in an effective and efficient manner. I pledged to the Governor when he appointed me that I would strive to maintain and improve the effectiveness of the department. With the assistance of our able staff, I intend to honor that pledge.

Talmadge B. Gilley

Talmadge B. Gilley, CFE
Commissioner

Department of Financial Institutions Senior Staff



Talmadge B. Gilley, CFE
Commissioner

Kathryn R. Edge
Assistant Commissioner
Legal Division

Harry P. Linn. CFE
Assistant Commissioner
Administrative and
Support Services Division

Louise H. Johnson, CFE
Assistant Commissioner
Banks and Savings and Loan
Division

Billy H. Thomas
Assistant Commissioner
Credit Union Division

W. T. Hamm
Assistant Commissioner
Loan Division

Department of Financial Institutions Staff

OFFICE OF THE COMMISSIONER

Talmadge B. Gilley, CFE, Commissioner
Tina Smith, Administrative Assistant
Linda P. Clark, Executive Secretary

BANK AND SAVINGS AND LOAN DIVISION

Louise H. Johnson, CFE, Assistant Commissioner
Mark C. McDowell, CFE, Director Examinations
Curtis F. Faulkner, CFE, Director Financial Analysis and Training
Marian E. Garland, CFE, Bank Analyst
Harry P. Murphy, CFE, Bank Analyst
Clarence H. Nixon, CBA, Examinations Specialist
Debra T. Clark, Executive Secretary
Jean Jackson, Administrative Secretary
Paula H. Bell, Administrative Secretary

SPECIAL SUPERVISION SECTION

Derek L. Carrier, CFE, Manager
Joe B. Hollis, CFE, Examinations Specialist

TRUST EXAMINATIONS SECTION

Vivian Scruggs, CFE, Manager
Robert R. Neyland, Jr., I

FIELD STAFF

West Tennessee

R. Douglas Baker, CFE, Manager

Region # 1

Jerry L. Webb, CFE, Supervisor
Phillip B. Fry, CFE, IV
Danny N. Nolan, CFE, IV
Vicki W. Ivey, AFE, III
Terry G. Warren, AFE, III
David T. Reynolds, II
Phillip E. Stafford, AFE, II
Gene W. Bridges, I

Region # 2

Jimmy G. Taylor, CFE, Supervisor
James R. Halford, CFE, IV
Vonzille W. McClendon, CFE, IV
Shirley D. Sanderson, CFE, IV
Calvin B. Allen, AFE, II
Van A. Davidson, I
Benjamin L. Horton, I
Brian E. McKelvey, I

Middle Tennessee

James S. Douthit, CFE, Manager

Region # 3

Harrison C. White, CFE, Supervisor
Irving B. Ginsberg, CFE, IV
James K. Wilson, AFE, III
Mary W. Hunt, AFE, II
Michael S. Gardner, II
Warren L. Pedigo, I
Patrick B. Ragan, I
Glen E. Rainey, I

Region # 4

Kenneth R. Hensley, CFE, Supervisor
Karen L. Herz, II
Joe N. Vance, AFE, II
Stephen R. Eddings, AFE, II
Eric R. Teeter, I
Michael D. Officer, I

Region # 5

Joe P. Boaz, CFE, Supervisor
Teresa R. Averitt, II
Aaron B. Crafton, II
Dana A. Miller, II
Anthony T. Rice, II
Joyce S. Simmons, II

"CFE" Certified Financial Examiner
"AFE" Accredited Financial Examiner
"CBA" Certified Bank Auditor
"CISA" Certified Information Systems Auditor
"CSP" Certified Systems Professional

Roman numerals denote field examiner level

East Tennessee

Kenneth Kelley, CFE, Manager

Region # 6

Chester Justice, Supervisor
William A. Cave, CFE, IV
Billy W. McCullough, III
Carol C. Killen, II
Teresa D. Weaver, AFE, II
Melissa Crabtree, II
Alfred M. Hacker, I

Region # 7

Claude N. Huff, CFE, Supervisor
Louella K. Hensley, CFE, IV
Kenneth R. Roberts, CFE, IV
Jonathan T. Piper, II
Robin R. Culbertson, II
Gregory L. Davis, I
Suzan C. Pointer, I

CREDIT UNION DIVISION

Billy H. Thomas, Assistant Commissioner
Dennis H. Shipp, CFE, Director
Shirley F. Gilley, Executive Secretary
Linda H. Vetitoe, Secretary

FIELD STAFF

Frank G. Bale, CFE, V
Bill K. Reed, CFE, IV
Paul L. Foster, CFE, IV
John R. Shires, CFE, IV
Robin D. Conway, AFE, III
Randall D. Means, III
Eric D. Batts, II
Thomas S. Harper, II
Kenneth L. Malugin, II
Vickie L. Young, II
David N. Bobo, II
Arnold R. Spruill, I

LOAN DIVISION

Will T. Hamm, Assistant Commissioner
Edward N. Yager, AFE, Director
Harold K. Borum, Supervisor
Martha G. Agee, Executive Secretary
Jeanette M. Scruggs, Administrative Secretary

FIELD STAFF

Francis B. Crawford, II
Bobby Hardaway, II
Gene A. Smith, II
Chris L. Adams, I

ADMINISTRATIVE AND SUPPORT SERVICES DIVISION

Harry P. Linn, CFE, Assistant Commissioner
Carolyn G. Merhar, Personnel Analyst

FISCAL SERVICES

Sheila P. Street, Administrative Services Assistant
Barbara A. Jones, Administrative Services Assistant
Stefanie D. Milam, Word Processing Operator
Jeffery Edwards, Secretary

INFORMATION SYSTEMS AND EDP EXAMINATIONS

William B. Wooten, CISA, AFE, CSP, Director
Wanda E. Smith, Manager Computer Operations
Donna J. Warren, CISA, EDP Examiner
Lowell V. Hunt, EDP Examiner
Marsha Dublin, EDP Examiner

LEGAL DIVISION

Kathryn R. Edge, Assistant Commissioner
Greg Gonzales, Staff Attorney, III
Elizabeth A. Clark, Staff Attorney, II
Roger W. Thomas, Staff Attorney, II
Sylvia C. Mitchell, Executive Secretary
Barbara Sawyer, Executive Secretary

BANKS AND SAVINGS AND LOAN DIVISION

Louise H. Johnson, CFE
Assistant Commissioner

The BANKS AND SAVINGS AND LOAN DIVISION is responsible for administration of Tennessee statutes and banking regulation governing two types of financial institutions: state-chartered banks and trust companies and state-chartered savings and loan associations.

Over the last five years, the division has added a trust manager, problem institution manager, training director, bank analyst, two examination review examiners, and 16 field positions. By increasing staff resources, the division has been able to provide:

- *better quality reports for examined institutions*
- *better turnaround time on examinations*
- *examination of bank trust departments*
- *more research and analysis of statewide trends*
- *in-house training staff for junior examiners*
- *increased surveillance of marginal institutions*
- *closer supervision of problem institutions*

In 1989, Assistant Commissioner Louise H. Johnson, CFE, established two new separate units within the division. The Special Supervision Section oversees problem institutions and is staffed with two senior bank examiners, one serving as an administrator and one traveling in the field for on-site follow-up visits. The Trust Examination Section examines bank trust departments and trust companies and is staffed by three full-time specialists.

Mark C. McDowell, CFE
Director, Examinations

Curtis F. Faulkner, CFE
Director, Financial
Analysis and Training

A significant accomplishment this year was developing an early warning system to screen all state-chartered financial institutions. The system was designed to detect deteriorating trends and rapid changes in balance sheet categories. It has proved to be a valuable aid in assessing the health of the institutions.

To accommodate the training and development of the large number of junior examiners, examination cycles were slowed to implement training and education and to emphasize the need for quality examinations. A full-time training director supplemented on-the-job training with classroom training for many junior examiners. The result has been improved examinations and a better understanding of report procedures. Numerous in-house training seminars will be conducted during the upcoming year to continue training for all levels of examiners.

Over the last several years, the division has prepared its staff to accommodate regulatory and other changes within financial institutions. In 1987, the General Assembly voted to extend bank examination frequency requirements from an annual basis to once every three years. As a result of increased staff expertise and enhanced support systems, examinations are higher quality, are more in-depth, and focus on relevant industry concerns.

Derek Carrier, CFE
Manager
Special Supervision
Section

Vivian Scruggs, CFE
Manager
Trust Examinations
Section

In 1987, the division hired its first bank analyst to provide research and analysis assistance to field personnel. This was a first step in early detection of declining trends in state institutions. The following year, the division hired its first full-time review examiner to implement a quality control mechanism for the entire division. The outcome has been to raise the overall quality and consistency of reports and enable division staff to pinpoint and correct common areas of misunderstanding among field examiners.

The division is now focusing on streamlining the examination process so that a larger number of banks can be examined. As part of the process, the field managers now schedule and pre-plan each examination before entering an institution. It is anticipated that a higher ratio of banks and trust departments will be examined in 1990 than any year since 1986.

Bank and Savings and Loan Division Management, Nashville office. (*left to right:*) Curtis Faulker, Marian Garland, Clarence Nixon, Derek Carrier, Vivian Scruggs, Louise Johnson, Mark McDowell, and Pat Murphy

Tennessee Banking Industry Developments

At year end 1989, there were 219 state-chartered banks in Tennessee with total assets of $22 billion. National banks numbered only 50, but their total assets amounted to nearly $24 billion. The number of banks domiciled in Tennessee declined by five in 1989, continuing the trend of recent years. From 1985 to 1989, the number of banks domiciled in the state declined from 290 to 269.

Looking forward, it appears likely that the number of banks will fall further in the next few years as bank holding companies in the state continue to merge their subsidiary banks. The trend toward fewer banks reflects a desire to consolidate operations and reduce overhead costs rather than an overall decline in banking activity in the state. Assets of all Tennessee banks grew by 5.1% in 1989, somewhat below the average growth rate of 6.3% over the last four years. Assets of state-chartered banks once again grew at a faster pace than national banks. In 1989, state banks' assets rose by 10.3% while national banks' assets increased by 1.3%. However, the average size of Tennessee national banks at $477 million continues to exceed state-chartered banks at $100 million.

The earnings performance of Tennessee banks deteriorated somewhat in 1989 mirroring a nationwide trend. National banks experienced a greater decline in profitability than state-chartered banks. For all Tennessee banks, return on assets fell from .8% in 1988 to .6% in 1989 and return on equity dropped from 10.9% to 8.1%. State-chartered banks, with .8% return on assets (ROA) and 9.7% return on equity (ROE), outperformed national banks, with .4% ROA and 6.2% ROE, by a considerable margin.

Tennessee state banks have a higher return on equity even though their equity is a greater percentage of assets when compared to national banks. At year end 1989, state banks' equity capital was 8.2% of assets and national banks, 6.6%. However, both types of Tennessee banks have shown growing capital strength in recent years as their equity ratios have improved.

Growth in lending by Tennessee banks slowed considerably in 1989 as compared to recent years. This slowdown was particularly pronounced for national banks. During the last year, loans of state-chartered banks grew almost 11%, while national bank loans increased only 1%. On average, over the period 1985 to 1989, state bank loans grew 12.4% and national bank loans, 6.2%. During this same period, bank deposits grew less rapidly. As a result, loan-to-deposit ratios for both types of banks showed a steady uptrend.

Traditionally, Tennessee state-chartered banks lend out a smaller proportion of their deposits and have larger holdings of securities as compared to national banks in the state. In recent years, this difference has narrowed as state banks increased their lending activity more rapidly. In 1985, the loan-to-deposit ratio for state banks was 60% and national banks, 73%, or a difference of 13%. By 1989, the loan-to-deposit ratio for both types of banks had risen to 68% for state banks and 77% for national banks, and the difference had narrowed to 9%.

The principal significance of these trends can be summarized as follows:

- An increasing proportion of banking resources in the state is concentrated in banks chartered and regulate 1 by the Tennessee Department of Financial Institutions.
- The financial condition of state-chartered banks, in general, is healthy with high capital levels and adequate earnings performance.
- The number of high-risk institutions has been significantly reduced through the sale or merger of troubled institutions.
- Increased lending activity by state banks is a good sign for local businesses, farmers, and consumers and bodes well for the state's economic progress.
- Continued active surveillance of bank performance by department staff is appropriate to insure that the benefits of state banking to the economy are maintained.

	State		National		All	
	1985	1989	1985	1989	1985	1989
No. of Banks	232	219	58	50	290	269
Total assets (billions)	$ 15.5	$ 22.0	$ 20.4	$ 23.9	$ 36.0	$ 45.9
Average assets (millions)	$ 67.0	$100.0	$352.2	$477.2	$124.0	$170.5

Tennessee Savings and Loan Industry Developments

The number and assets of Tennessee state-chartered thrift institutions continued to decline in 1989. At year end, only six savings and loan associations and savings banks, with a total of $285 million in assets, were regulated and examined by the Department of Financial Institutions. This compares with ten thrifts and $422 million in assets only two years earlier.

The federally chartered thrift business in Tennessee has fared a little better although it, too, experienced a decline in numbers and assets in 1989.

Like national banks, federal thrifts in Tennessee are almost five times larger on average, at $218 million, than their state-chartered counterparts at $47 million. However, unlike commercial banks where the aggregate assets of state and nationally chartered institutions are almost equal, state-chartered thrifts represent less than 2.5% of industry assets in the state and are falling.

The Dual System

The declining importance of the state-chartered thrift industry in Tennessee should be of concern to those who support the dual system of chartering financial institutions. The dual system of state and federal charters has stimulated competition and encouraged important innovations in financial services to the benefit of the public. The dual system has remained strong in commercial banking and credit unions in recent years, but it appears to be in sharp decline in the thrift industry, both in Tennessee and elsewhere. Since state regulation in a few states has been blamed for a large part of recent thrift industry problems, it appears unlikely that this decline can be reversed any time soon.

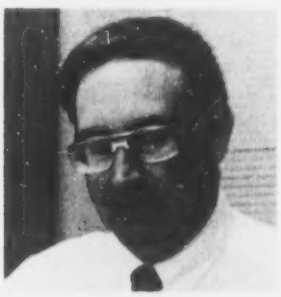
	State		Federal		All	
	1985	1989	1985	1989	1985	1989
No. of Savings Institutions	11	6	51	52	62	58
Total assets (billions)	$ .4	$ .3	$ 9.4	$11.3	$ 9.8	$ 11.6
Average assets (millions)	$ 35.1	$ 47.4	$185.0	$217.8	$158.4	$200.2

CREDIT UNION DIVISION

Billy H. Thomas
Assistant Commissioner

The CREDIT UNION DIVISION recently initiated a series of changes to increase employee productivity and to improve the ability of the over 200 state-chartered credit unions to operate safely and serve their members.

Beginning in 1988, the activities of division personnel have been modified to concentrate more attention on credit unions which need assistance to improve performance. The division adopted the CAMEL performance rating system, widely used by credit union regulators to identify weaker institutions. This system focuses attention on capital, asset quality, management, earnings performance and liquidity and results in an overall rating from 1 (highest) to 5 (lowest) for each credit union. These ratings are used to set division staff priorities and to focus management attention on steps needed to improve the performance of weaker institutions. Low rated organizations are visited more frequently by division examiners, and the scope and depth of the examinations are adjusted, depending upon areas of indicated weakness.



Dennis H. Shipp, CFE
Director
Credit Union Division

In addition, Assistant Commissioner Billy H. Thomas has identified three areas of business practice that require increased attention by credit union managers and directors if their institutions are to remain healthy and provide good service to members. These areas are:

- *Improvements in accounting methods.* These provide better information on financial performance and enable management and directors to identify areas needing attention.
- *Preparation of activity projections and related operating budgets.* These allow management to indicate how performance will change in the future and the steps to be taken to improve safety and service.
- *Development and updating of written policies and procedures.* These inform employees of the actions desired by the credit union's directors and encourage consistency and good practice.

Assistant Commissioner Billy H. Thomas and division staff members continually emphasize the importance of these three areas of business practice in their communications with credit union management.

In order to improve employee morale and reduce costs, the division has instituted a four-day work week for field examiners. Without reducing actual time on the job, the travel expenses of examiners have been significantly lowered as a result of this change.

The value of these recent activities by the division is indicated by the significant improvement in CAMEL ratings of state-chartered credit unions. Over the last two years, the number of credit unions that were rated 4 and 5 has been reduced from 46 to 9 and the proportion of 3, 4 and 5 rated institutions has declined from almost two-thirds of the total to under one-half.

Equally significant, state-chartered credit unions have expanded by attracting more members for loans and share accounts while also increasing the adequacy of their capital cushion.

Tennessee Credit Union Developments

Credit unions have long served a large number of member/customers. In recent years, however, they have emerged as substantial financial institutions with full-time management, free standing offices, and a wider range of financial service offerings. The average size of credit unions in Tennessee still remains small ($12 million in assets) relative to banks ($171 million), but the gap is closing. From 1985 to 1989, the rate of growth of credit union assets was almost twice that of banks, and the credit union share of total deposits in the state increased from 6.7% to over 8%.

Although their financial resources have grown sharply in recent years, the number of credit unions in Tennessee has declined, from 430 in 1985 to 359 at year-end 1989. For the most part, this decline reflects the disappearance, through merger or liquidation, of small credit unions unable to keep up with member needs or to meet regulatory financial requirements.

The result of strong asset growth and a declining number of institutions has been a significant increase in the size of the average credit union in Tennessee. This increased from $6.9 million in 1985 to $12.2 million at year end 1989.

Like its banks, Tennessee's state-chartered credit unions are more numerous but smaller on average than their federally-chartered counterparts. Also, state credit unions have higher equity-to-asset ratios and lower loan-to-deposit ratios than federal credit unions. Of special note is the substantial improvement in credit unions' equity ratios in recent years, since higher equity provides better protection to members against financial adversity. From 1985 to 1989, the equity-to-assets ratio of state credit unions increased from 7.3% to 8.3%. A similar strengthening of federal credit unions in Tennessee occurred, as their equity ratio rose from 5.6% to 7.1%.

In summary.

- Credit unions are a small but growing source of financial services to consumers.
- The growing professionalism of credit union management has allowed the industry to expand rapidly without diluting its financial soundness.
- State-chartered credit unions in Tennessee compare favorably in many respects to their federally-chartered counterparts.
- Advances in the examination, supervision, and regulation of credit unions by the Tennessee Department of Financial Institutions have contributed significantly to the strength of state-chartered institutions.

	State		Federal		All	
	1985	1989	1985	1989	1985	1989
No. of Credit Unions	280	229	150	130	430	359
Total assets (billions)	$ 1.7	$ 2.6	$ 1.3	$ 1.9	$3.0	$4.4
Average assets (millions)	$ 6.0	$11.3	$ 8.7	$14.4	$6.9	$12.2

LOAN DIVISION

Will T. (Tom) Hamm
Assistant Commissioner

The Loan Division is responsible for the regulatory oversight of three types of companies operating in Tennessee:

- industrial loan and thrift companies
- insurance premium finance companies
- home mortgage servicers, lenders, and brokers

Regulatory oversight activities of the division include licensing, examination and complaint resolution. The primary purpose of regulatory oversight is protection of consumers from excessive charges for interest and other fees on loans and insuring prompt resolution of customer complaints.

The Loan Division regulates and examines approximately 600 loan and thrift companies and 60 insurance premium finance companies.

Each of these companies is examined by division personnel at least twice each year. Unlike bank and credit union examinations which focus primarily on the financial condition of the institution, loan division examinations are designed to test company compliance with state laws limiting the amount of interest and fees that can be charged to customers and prohibiting certain coercive practices relating to credit insurance requirements and collection procedures.

Loan Division Developments

In 1988, the state legislature passed a law requiring registration and licensing of previously unregulated residential mortgage servicers, lenders, and brokers. Registration began in January 1989, and approximately 160 companies have been licensed to date. The new law not only provides for licensing of mortgage companies but also requires such companies to maintain a minimum net worth of $25,000. In addition, licensees are required to maintain a surety bond or letter of credit of $25,000.

The purpose of this requirement, according to Assistant Commissioner Will T. (Tom) Hamm, is to provide a source of compensation to customers if it is found that a mortgage company has violated provisions of the law involving fees and refunds.

The loan division is not required to examine residential mortgage companies but instead tests compliance with the law by processing and following up on customer complaints.

ADMINISTRATIVE AND SUPPORT SERVICES

Harry P. (Pat) Linn, CFE
Assistant Commissioner

The Administrative and Support Services Division, under the direction of Assistant Commissioner Harry P. (Pat) Linn, administers the Department of Financial Institutions' budget and oversees the Fiscal Services Section, including accounting and payroll functions, and the Personnel Office. In addition, the division is responsible for two major service areas: Information Systems and EDP Examinations.

The Department of Financial Institutions is a self-funded agency with fees paid by the state-chartered financial institutions that are regulated by the department. The two major expenditures in the budget are salaries and travel expenses (see page 21). Salaries of the 119 positions in the department are governed by the state Department of Personnel, Department of Finance and Administration, and the General Assembly in the same manner as other departments of state government that receive tax dollars.

Just as the department examines financial institutions, it, too, is subject to scrutiny and accountability. Every two years, auditors from the Comptroller's Office audit the department and review internal control procedures, expenditures and receipts, bookkeeping procedures and management. The most recent financial audit covered fiscal years 1987-88 and 1988-89, resulting in a report of "no significant weaknesses."

Carolyn G. Merhar
Personnel Analyst

The department's mission is to provide the citizens of Tennessee with a safe and sound financial institutions system. To ensure that mission is successful, the department is committed to further developing staff expertise in the evaluation of state-chartered financial institutions and implementing information systems and other resources to assist them.

Information Systems

Information Systems has expanded to fit the increasing capabilities of automation. The greatest challenge for the department has been the full automation of bank and credit union examinations. Field examiners now have the ability to communicate with the Nashville office computer information system, which allows them to conduct all examinations with greater efficiency and accuracy.

The department's use of automated word processing, data communication, electronic spreadsheets, graphics, and desktop publishing has increased work quality and efficiency.

The Information Systems staff oversee computer training, problem determination, equipment needs, back-up and contingency planning, information retrieval, systems design, and programming. The majority of the staff are now proficient on equipment that a few years ago was used only by data processing professionals. As a result, the additional responsibilities were added without increasing personnel.

While great strides have been made in automating, there is more to come—on-line electronic bulletin boards, data bases and automating the handling of consumer complaints and administrative action tracking.

Sheila P. Street
Administrative Services
Assistant

Barbara A. Jones
Administrative Services
Assistant

William B. (Ben) Wooten, CISA, AFE, CSP
Director
Information Systems and EDP Examinations

EDP Examinations

EDP examinations of state-chartered institutions cover major areas of concern, such as security, controls, internal EDP auditing, programming and operation standards, management involvement, and emergency and disaster contingency planning. In 1989, 74 data centers were examined.

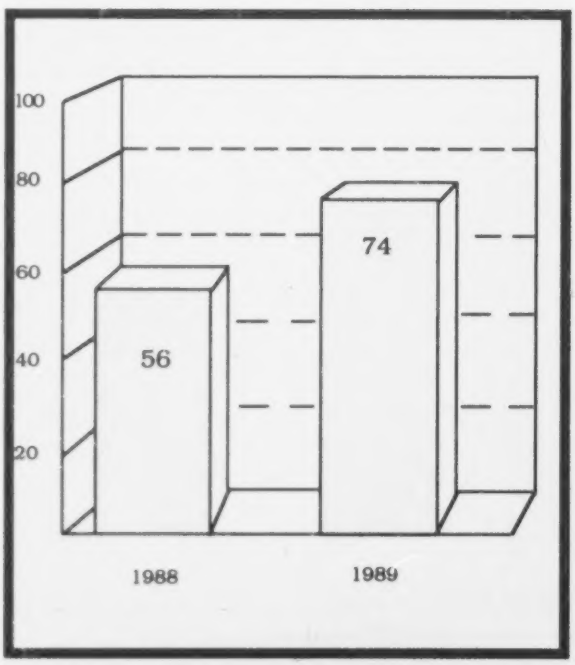
Performance ratings were assigned to each data center. The ratings range from one (1), the highest rating, to five (5), an indication that serious problems exist. A zero (0) rating is given to any data center that is newly converted to in-house processing. Overall, financial institution performance ratios have improved over the years that the department has made EDP examinations.

The average rating for all data centers for the calendar year 1989 was 2.7.

The department, through EDP Examinations, is evaluating data processing alternatives, both in-house and outside servicers utilized by state-chartered banks, savings and loans, and credit unions.

1989 Performance Ratings for Tennessee Data Centers

Rating	0	1	2	3	4	5
1988	2	0	18	33	3	0
1989	8	1	20	42	3	0



TOTAL EDP EXAMINATIONS

Wanda E. Smith
Manager
Computer Operations

LEGAL DIVISION

Kathryn R. Edge
Assistant Commissioner

THE LEGAL DIVISION, under its director, Assistant Commissioner Kathryn R. Edge, serves as legal counsel to the various divisions of the department. The division's four attorneys answer legal questions from staff members relative to the proper administration of their duties and interpretations of state and federal law. The attorneys are supported by two administrative assistants.

In addition, the legal staff drafts internal memoranda opinions; issues informal and formal opinion letters on issues of state financial institutions law; reviews for legality all applications for new charters, interstate acquisitions, mergers, and other corporate reorganizations; drafts proposed legislation and analyses of proposed legislation; tracks the progress of legislation through the General Assembly; edits the compilation of laws and regulations published by the department; drafts regulations and tracks regulations through the administrative promulgation process; assists the state Attorney General in any litigation affecting the department; represents the Commissioner in any proceeding brought under the Uniform Administrative Procedures Act; tracks developments in state and federal laws and regulations affecting financial institutions; processes consumer complaints; assists law enforcement in certain criminal matters; and provides other related services to the various divisions of the Department of Financial Institutions.

LEGISLATION AFFECTING FINANCIAL INSTITUTIONS

The 1989 session of the 96th General Assembly produced several pieces of legislation which affected financial institutions and companies regulated by the department.

The department sought the amendment of T.C.A. Section 45-2-1603 relative to the confidentiality of bank examination reports and related documents to permit the disclosure of the reports, under appropriate court-approved protective orders, to the federal regulators of savings institutions, and in any administrative proceeding or court action to which the commissioner is an actual party. This legislation also gave the commissioner the discretionary authority to produce such documents under a validly issued subpoena where a protective order is ordered by the court to protect the confidential nature of the information contained in the reports of examination. **(Public Chapter 29, Acts of 1989)**

The department also supported an amendment to T.C.A. Section 43-2-401 which provided for a more flexible range for the size of the board of directors of state-chartered banks. The amendment was supported by the Tennessee Bankers Association who saw it as a more contemporary approach to the corporate law of banks. **(Public Chapter 57, Acts of 1989)**

One of the most significant new laws of the 1989 session which affects financial institutions is an amendment to the Tennessee version of the Statute of Frauds which sets out the circumstances under which certain contracts must be in writing to be enforceable. Added to the list is a provision that requires that oral commitments to lend money are unenforceable in Tennessee. The new law sprang from the growing number of lender liability lawsuits in which the center of the controversy was whether oral commitments to lend were actually made to the borrowers. The law was proposed and supported by the Tennessee Bankers Association. **(Public Chapter 88, Public Acts of 1989)**

Staff attorneys Greg Gonzales and Elizabeth Ann Clark

The Tennessee Bankers Association sought an amendment to state branching laws to permit banks to contract with other banks to provide certain agency-relationship services for one another. Under the new law, subject to the approval of the Commissioner of Financial Institutions, a bank could contract with another bank to accept deposits, loan payments or other payments of money. The Commissioner is in the process of promulgating regulations to implement the provisions of the Act. A survey of state bankers after the law passed actually generated little initial interest in the agency concept. **(Public Chapter 85, Acts of 1989)**

1989 saw the statutory creation of a new type of lending institution in Tennessee—the BIDCO. A BIDCO is a business and industrial development corporation. The General Assembly found that there was a need for an additional source of financing to support the growth of small/medium sized businesses in Tennessee. The Department of Financial Institutions is charged with the responsibility of licensing and regulating BIDCOs, while the Department of Economic and Community Development will play a role in providing initial loans to BIDCOs for the purpose of start-up capital. Regulations to provide the framework for the licensing and regulation of these new lending institutions will be promulgated by the Commissioner of Financial Institutions **(Public Chapter 124, Acts of 1989)**

For the first time in Tennessee, commercial banks have been granted the statutory authority to engage in a wide range of securities activities heretofore reserved for the securities industry. The new law anticipates that the regulation of securities activities approved by the Commissioner of Financial Institutions to be conducted in the bank itself will be regulated by the department. Activities which are required to be conducted in a subsidiary of the bank will primarily be regulated by the Department of Commerce and Insurance, Securities Division. The General Assembly built in statutory safeguards to protect Tennessee depositors and investors and vested the commissioners of both departments with rule-making authority to provide additional necessary safeguards. The Commissioner of Financial Institutions will promulgate regulations to implement the provisions of the Act. **(Public Chapter 168, Acts of 1989)**

A legislative initiative was undertaken in the area of credit card transactions. Responding to complaints from credit card holders that they were being held liable for transactions charged to their credit card accounts by persons no longer privileged to use their cards, the General Assembly set out guidelines for protecting the rights of credit card holders who wish to terminate usage of their cards by persons previously entitled to their use. **(Public Chapter 216, Acts of 1989)**

Staff Attorney Roger W. Thomas with (*left to right*) Linda Clark, Executive Secretary to the Commissioner, Sylvia Mitchell, Executive Secretary, Tina Smith, Administrative Assistant, and Barbara Sawyer, Executive Secretary

The Credit Union Act was amended to provide for the election of a board of directors for state-chartered credit unions, replacing the prior system which included a board of directors, a supervisory committee and a credit committee. The Department supported this change in order to ensure a corporate system which provides for the ultimate accountability of the board of directors for the management of the credit union. The new law will help eliminate "dual control" problems in the state-chartered credit unions. **(Public Chapter 223, Acts of 1989)**

REGULATIONS EFFECTIVE IN 1989

The Commissioner promulgated several new regulations and amended existing regulations during 1989. Modest fee increases were approved for the filing of applications to organize new banks, establish bank branches, and to establish remote service facilities. **(Chapter 0180-7-.08, effective March 29, 1989)**

In addition, an amendment to the regulation which sets out requirements for the examination of electronic data processing servicers provides for certain information to be sent to the department concerning any EDP servicer under contract with a regulated financial institution. This information will enable the department to monitor the financial and operational sufficiency of EDP servicers which provide such services to the institutions under the regulation of the department. **(Chapter 0180-13-.03, effective November 29, 1989)**

At the urging of several bankers who perceived inequities in the regulation which sets out procedures for the disposition of Other Real Estate Owned, the Commissioner amended the rule to provide for a date certain on which appraisals are required for OREO and to set out percentage of equity capital guidelines for appraisal requirements. The purpose of the amended rule is to lessen the cost burden on banks for securing appraisals on small pieces of real property. **(Chapter 0180-14-.02, effective November 29, 1989)**

New regulations implementing the provisions of the Tennessee Residential Lending, Brokerage and Servicing Act of 1988 establish rules for accounting for fees to third persons; notices of mortgage transfers; lock-in agreements; refunds of lock-in fees; refunds of commitment fees; brokerage/finders fees; surety bonds/letters of credit; and letters of exemption from the provisions of the Act. These regulations were promulgated by the Commissioner after extensive consultation with representatives from the mortgage banking industry and the Tennessee Mortgage Bankers Association. **(Chapter 0180-17, effective May 1, 1989)**

PROPOSED REGULATIONS FOR 1990

The Department of Financial Institutions intends to promulgate regulations to implement the provisions of the bank agency legislation, the Expanded Securities Powers Act, the Tennessee BIDCO Act, and the Tennessee Reciprocal Banking Act. The focus of each set of rules will be to establish procedures which help to insure the safe and sound operation of Tennessee financial institutions while providing opportunities to these institutions for growth and prosperity. In addition, the department will undertake necessary revisions to the regulation which sets out requirements for record retention for financial institutions.

EXPENDITURE AND FUNDING SOURCES, 1988 AND 1989

DEPARTMENT OF FINANCIAL INSTITUTIONS

	Fiscal Year 1987-1988	Fiscal Year 1988-1989
REVENUES		
Bank Fees	$ 2,844,250.00	$ 3,074,441.75
Savings & Loan Fees	15,400.00	32,308.68
Credit Union Fees	837,926.59	894,784.20
Money Order Fees	49,420.00	48,654.93
Loan Company Fees	354,000.00	364,225.00
Premium Finance Company Fees	29,105.84	18,438.40
Mortgage Fees	0.00	35,700.00
Miscellaneous Fees	7,945.34	14,962.84
Total Revenues	**4,138,047.77**	**4,483,515.80**
Total Reserves and Revenues	**4,198,938.57**	**4,541,071.13**
EXPENDITURES		
Personal Services	2,494,398.25	2,748,122.28
Employee Benefits	562,109.56	605,519.16
Total Payroll	**3,056,507.81**	**3,353,641.44**
Travel	477,106.29	426,867.07
Printing, Duplication, and Film Processing	28,582.78	65,341.27
Utilities and Fuel	1,058.70	1,049.63
Communication and Shipping Costs	79,192.51	91,589.53
Maintenance, Repairs, and Service	12,201.83	25,103.07
Professional and Administrative Services	158,116.18	124,464.22
Supplies	43,760.86	87,616.32
Rentals and Insurance	49,660.47	76,308.82
Awards and Indemnities	318.84	317.16
Unclassified Expenses	2.69	0.00
Grants and Subsidies	14,901.00	8,778.00
Equipment	6,783.98	74,345.00
Total Other	**871,686.13**	**981,780.09**
Total Current Year	**3,928,193.94**	**4,335,421.53**
Prior Year Expenditures	59,901.11	7,528.46
Total Expenditures	**3,988,095.05**	**4,342,949.99**
Excess of Revenues Over Expenditures	210,843.52	198,121.14
Reserves Carried Forward	57,555.33	0.00
Amount Reverting	153,288.19	198,121.14
Total	**210,843.52**	**198,121.14**

STATEMENT OF CONDITION

TENNESSEE STATE BANKS

(in $ thousands)

ASSETS	1988	1989
Cash and Due From Banks	$ 1,656,305	$ 1,543,133
Securities	5,198,380	5,434,327
Federal Funds Sold and Securities Purchased	676,471	1,232,289
Total Loans and Leases	11,804,968	13,006,418
Reserve for Loan Losses	(151,720)	(184,821)
Assets Held in Trading Accounts	1,826	1,701
Premises and Fixed Assets	374,302	403,883
Other Real Estate Owned	55,867	76,132
Investments in Unconsolidated Subsidiaries	4,989	6,851
Customer Liabilities on Acceptances Outstanding	77,516	59,857
Intangible Assets	21,160	26,594
Other Assets	348,566	387,098
Total Assets	**20,068,830**	**21,993,462**
LIABILITIES		
Noninterest-Bearing Deposits-Domestic	2,687,059	2,710,461
Interest-Bearing Deposits-Domestic	14,680,717	16,220,232
Interest-Bearing Deposits-Foreign	230,918	195,081
Total Deposits	**17,598,694**	**19,125,774**
Federal Funds Purchased and Securities Sold	476,832	661,140
Demand Notes Issued U.S. Treasury	9,553	44,489
Other Borrowed Money	8,662	10,769
Mortgage Indebtedness	27,136	28,249
Banks Liability	77,197	62,111
Notes and Debentures	7,795	7,336
Other Liabilities	224,516	261,785
Total Liabilities	**18,430,385**	**20,201,653**
EQUITY CAPITAL		
Preferred Stock	13,714	11,331
Common Stock	212,964	230,773
Surplus	417,944	441,421
Undivided Profits and Capital Reserves	993,823	1,108,284
Total Equity Capital	**1,638,445**	**1,791,809**
Total Liabilities and Equity Capital	**20,068,830**	**21,993,462**

STATEMENT OF CONDITION

TENNESSEE NATIONAL BANKS

(in $ thousands)

ASSETS	1988	1989
Cash and Due From Banks	$ 2,532,963	$ 2,485,047
Securities	4,805,634	5,157,700
Federal Funds Sold and Securities Purchased	564,113	590,937
Total Loans and Leases	14,595,423	14,746,235
Reserve for Loan Losses	(234,631)	(293,250)
Assets Held in Trading Accounts	210,514	119,270
Premises and Fixed Assets	318,820	318,422
Other Real Estate Owned	60,089	81,116
Investments in Unconsolidated Subsidiaries	0	9,776
Customer Liabilities on Acceptances Outstanding	27,378	10,411
Intangible Assets	69,007	56,824
Other Assets	596,182	575,385
Total Assets	**23,545,492**	**23,857,873**
LIABILITIES		
Noninterest-Bearing Deposits-Domestic	3,839,348	3,644,414
Interest-Bearing Deposits-Domestic	14,632,027	15,386,148
Interest-Bearing Deposits-Foreign	226,759	39,472
Federal Funds Purchased and Securities Sold	2,327,360	2,438,457
Demand Notes Issued U.S. Treasury	93,993	64,039
Other Borrowed Money	227,634	181,794
Mortgage Indebtedness	12,671	10,318
Banks Liability	27,378	10,411
Notes and Debentures	138,230	136,990
Other Liabilities	449,881	407,238
Total Liabilities	**21,975,281**	**22,319,281**
EQUITY CAPITAL		
Preferred Stock	1,000	1,000
Common Stock	215,090	211,328
Surplus	396,202	403,086
Undivided Profits and Capital Reserves	957,919	923,178
Total Equity Capital	**1,570,211**	**1,538,592**
Total Liabilities and Equity Capital	**20,068,830**	**23,857,873**

STATEMENT OF CONDITION

TENNESSEE STATE SAVINGS INSTITUTIONS

(in $ thousands)

ASSETS		**1989**
Cash and Demand Deposits	$	3,197
U.S. Government and Agency Securities		10,889
Other Investments		26,521
Mortgage Loans		183,486
Commercial Loans		8,820
Consumer Loans		3,343
All Other Loans		16,275
Accrued Interest on Loans		4,645
Repossessed Assets		2,440
Real Estate Investments		10,819
Service Corporations/Subsidiaries		2,151
Fixed Assets		5,386
Other Assets		7,178
Valuation Allowances		(483)
Total Assets		**284,667**
LIABILITIES		
Deposits		251,070
Borrowings		
FHLB Advances		13,111
Other Borrowed Money		23,217
Other Liabilities		4,538
Total Liabilities		**291,936**
EQUITY CAPITAL		
Common Stock		6,982
Retained Earnings		(14,251)
Total Equity Capital		**(7,269)**
Total Liabilities and Equity Capital		**284,667**

STATEMENT OF CONDITION

TENNESSEE FEDERAL SAVINGS INSTITUTIONS

(in $ thousands)

ASSETS	**1989**
Cash and Demand Deposits	$ 150,245
U.S. Government and Agency Securities	538,340
Other Investments	900,077
Mortgage Loans	7,845,307
Commercial Loans	267,409
Consumer Loans	759,978
All Other Loans	495
Accrued Interest on Loans	80,493
Repossessed Assets	158,969
Real Estate Investments	1,326
Service Corporations/Subsidiaries	121,490
Fixed Assets	153,436
Other Assets	362,137
Valuation Allowances	(15,221)
Total Assets	**11,324,481**
LIABILITIES	
Deposits	9,659,979
Borrowings	
FHLB Advances	402,955
Other Borrowed Money	307,003
Other Liabilities	223,506
Total Liabilities	**10,593,443**
EQUITY CAPITAL	
Common Stock	242,747
Retained Earnings	488,291
Total Equity Capital	**731,038**
Total Liabilities and Equity Capital	**11,324,481**

STATEMENT OF CONDITION
TENNESSEE STATE CREDIT UNIONS
(in $ thousands)

ASSETS	**1988**	**1989**
Unsecured Loans	$ 301,052	$ 290,119
New Auto Loans	359,577	372,862
First Mortgage Real Estate	346,028	388,918
Other Real Estate	181,834	171,862
Agricultural Loans	1,446	1,879
Commercial Loans	1,205	1,020
All Other Loans To Members	271,009	271,714
Other Loans	20,648	9,315
Cash	44,919	46,251
U.S. Government and Agency Securities	177,346	157,113
Mutual Fund Shares	39,064	32,529
Corporate Central Credit Union Deposits	375,191	545,524
Commercial Bank Deposits	65,690	58,541
S&L and Mutual Savings Bank Deposits	115,034	90,590
NCUA Share Insurance Capitalization	5,127	4,817
Non-NCUA Insurance Capitalization	10,777	13,064
Credit Union Deposits	2,367	1,233
Loans to Credit Unions	55	6
Other Investments	43,902	36,206
Allowances for Investment Losses	(474)	(376)
Land and Buildings	20,572	26,585
Other Fixed Assets	9,468	11,836
Other Assets	51,359	46,443
Total Assets	**2,443,177**	**2,578,051**
LIABILITIES		
Promissory Notes	765	203
Reverse Repurchase Agreements	18,636	10,929
Other Notes and Interest Payable	11,996	10,793
Accounts Payable	14,256	10,397
Interest Payable on Deposits	6,767	6,304
Accrued Dividends Payable on Shares	7,337	6,298
Other Liabilities	20,372	9,403
Share Certificates	565,498	710,280
Share Drafts	231,574	263,898
IRA/KEOGH & Retirement Accounts	238,708	253,000
All Other Shares	1,009,201	958,333
Permanent Capital Shares	26,586	28,330
Member Deposits	94,476	94,161
Non-Member Deposits	357	1,213
Total Liabilities	**2,246,529**	**2,363,541**
RESERVES		
Regular Reserve	99,294	106,934
Investment Valuation Reserve	(1,149)	(946)
Other Reserves	27,021	30,204
Undivided Earnings	66,454	68,952
Net Income	5,029	7,475
Total Liabilities and Reserves	**2,443,177**	**$ 2,578,051**

STATEMENT OF CONDITION
TENNESSEE FEDERAL CREDIT UNIONS
(in $ thousands)

ASSETS	1988	1989
Unsecured Loans	$ 237,356	$ 241,196
New Auto Loans	276,869	285,387
First Mortgage Real Estate	287,908	317,244
Other Real Estate	94,978	117,990
Agricultural Loans	307	N/R
Commercial Loans	1,681	5,493
All Other Loans To Members	236,984	250,920
Other Loans	1,972	841
Allowances for Loan Losses	(7,984)	(8,717)
Cash	33,383	39,386
U.S. Government and Agency Securities	197,115	159,807
Mutual Fund Shares	13,871	9,192
Corporate Central Credit Union Deposits	88,891	100,780
Commercial Bank Deposits	48,413	68,686
S&L and Mutual Savings Bank Deposits	199,369	168,764
NCUA Share Insurance Capitalization	15,041	15,952
Credit Union Deposits	539	2,937
Loans to Credit Unions	0	1
Other Investments	10,552	44,531
Allowances for Investment Losses	(791)	(142)
Land and Buildings	25,255	26,371
Other Real Estate Loans	N/R	673
Other Fixed Assets	9,186	8,102
Other Assets	15,481	17,121
Total Assets	**1,786,376**	**1,872,515**
LIABILITIES		
Promissory Notes	3,979	3,455
Reverse Repurchase Agreements	10,501	3,870
Other Notes and Interest Payable	2,161	560
Accounts Payable	3,757	5,610
Accrued Dividends Payable on Shares	16,357	18,035
Total Interest and Dividends Payable	36,755	18,595
Share Certificates	392,913	453,762
Share Drafts	128,310	135,411
IRA/KEOGH & Retirement Accounts	244,787	273,386
Regular Shares	770,429	703,303
Money Market Shares	N/R	122,317
All Other Shares	96,713	20,276
Total Liabilities	**1,812,782**	**1,739,985**
RESERVES		
Regular Reserve	47,537	54,200
Other Reserves	6,627	9,595
Undivided Earnings	62,302	68,735
Total Liabilities and Reserves	**1,786,376**	**1,872,515**

East Tennessee State University is fully in accord with the belief that educational and employment opportunities should be available to all eligible persons without regard to age, sex, color, race, religion, national origin or handicap. Printed by East Tennessee State University Press. TBR 180-001-90 1M.

In past years, the Annual Report has included detailed statistics on individual financial institutions and other data considered to be of interest to a limited audience. Although this information is not included in this report, in many cases it may be obtained by written inquiry to:

Commissioner
Department of Financial Institutions
State of Tennessee
The John Sevier Building
500 Charlotte Ave.
Nashville, TN 37219-5384